

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER

8-51844

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

3/15/02FV

AS OF: 12/31/01

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

ROCK ISLAND INDEX TRADING, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

200 West Jackson Boulevard, Suite 2400

(No. and Street)

Chicago

(City)

Illinois

(State)

60606

(Zip Code)

REC'D S.E.C.

MAR 07 2002

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OFFICIAL USE ONLY

FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Robyn E. Kole

(312) 895-2678

(Area Code - Telephone No)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ryan & Juraska, Certified Public Accountants

(Name - if individual, state last, first, middle name))

141 West Jackson Boulevard, Suite 3520

(Address)

Chicago

(City)

Illinois

(State)

60604

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 22 2002

THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

2/21/02
SS

OATH OR AFFIRMATION

I, **Robyn E. Kole**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of **Rock Island Index Trading, LLC** as of **December 31, 2001** are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

Robyn E. Kole
Signature

Chief Financial Officer
Title

Subscribed and sworn to before me this

28th day of February, 2002



Kristen Murphy
Notary Public

This report** contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- ☒ (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' Report on Internal Accounting Control.
- ☐ (p) Schedule of Segregation Requirements and Funds in Segregation – Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.10(d)2(iv).

**For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).

RYAN & JURASKA
CERTIFIED PUBLIC ACCOUNTANTS
141 WEST JACKSON BOULEVARD
CHICAGO, ILLINOIS 60604
TEL: (312) 922-0062
FAX: (312) 922-0672

INDEPENDENT AUDITORS' REPORT

To the Member of
Rock Island Index Trading, LLC

We have audited the accompanying statement of financial condition of Rock Island Index Trading, LLC as of December 31, 2001 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Rock Island Index Trading, LLC as of December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The information contained in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statement, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statement taken as a whole.

Ryan & Juraska

Chicago, Illinois
February 19, 2002

ROCK ISLAND INDEX TRADING, LLC
STATEMENT OF FINANCIAL CONDITION
as of December 31, 2001

ASSETS

Cash	\$ 143,093
Receivable from broker-dealer	912,689
Receivables from clearing organizations	2,539,435
Deposits with clearing organizations	380,180
Receivable from affiliate	774,934
Securities owned, at market value	3,367,070
Fails to deliver	7,037,600
Exchange memberships at cost (market value \$75,000)	171,850
Equipment (net of accumulated depreciation of \$16,857)	65,644
Prepaid specialist privileges	98,889
Other assets	<u>20,912</u>
	<u>\$ 15,512,296</u>

LIABILITIES AND MEMBER'S EQUITY

Liabilities

Bank loans payable	\$ 5,021,000
Payable to related broker-dealer	13,526
Securities sold, not yet purchased, at market value	6,830,242
Accounts payable and accrued expenses	<u>196,370</u>
	12,061,138

Member's Equity

<u>3,451,158</u>
<u>\$ 15,512,296</u>

See accompanying notes.

ROCK ISLAND INDEX TRADING, LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION as of December 31, 2001

1. Description of Business

Rock Island Index Trading, LLC (the "Company") was organized as an Illinois limited liability company on February 18, 1999 and commenced operations on July 17, 1999. The Company is a registered securities broker-dealer with the Securities and Exchange Commission and is a self-clearing member of the Chicago Stock Exchange ("CHX"). The Company acts as a specialist in exchange traded funds on the CHX.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies that have been followed in preparing the accompanying financial statements is set forth below:

Income Recognition

Securities transactions and related commission expenses are recorded on a settlement date basis. Generally Accepted Accounting Principles normally require an entity to record securities transactions on a trade date basis, however, a majority of brokers and dealers record most securities transactions on the settlement date rather than on the trade date. The difference between trade date and settlement date accounting is not material to the Company's financial position at December 31, 2001, nor material to the results of its operations for the year then ended.

Depreciation

Equipment is being depreciated using the straight-line method for financial reporting, and straight-line and accelerated methods for income tax purposes.

Income Taxes

No provision has been made for federal income taxes, as the taxable income of the Company is included in the respective income tax returns of the members.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Management determines that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

3. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased consist of corporate equity securities and are carried at market value.

ROCK ISLAND INDEX TRADING, LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued as of December 31, 2001

4. Related Party Transactions

Rock Island Securities, Inc. ("RISI"), which is related by common ownership, is a registered securities broker-dealer on various national securities exchanges. At December 31, 2001, the Company had a payable to RISI of \$13,526.

At December 31, 2001, the Company had a loan receivable from Specialist Holdings Company, its sole member, totaling \$774,934. The loan bears interest at prime minus 1%.

5. Bank Loan Payable

The bank loan payable is due on demand and is collateralized by equity securities with interest payable at the broker call rate, which was 3.5% at December 31, 2001.

6. Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are carried at fair value or amounts approximating fair value.

7. Employee Benefit Plan

The Company has adopted a profit-sharing and savings plan which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may contribute up to 15% of their compensation to the plan with the Company matching 100% of the contributions. The plan covers qualified employees who meet the prescribed service requirements.

8. Off Balance Sheet Risk and Concentration of Credit Risk

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of off-balance sheet risk. These financial instruments are primarily corporate equity securities. The trading of these financial instruments is conducted with other registered broker-dealers. The Company's exposure to credit risk associated with counterparty nonperformance on the above financial instruments is limited to the amounts reflected in the statement of financial condition. The Company monitors its exposure to market and counterparty risk through position and credit exposure controls and other procedures. Market risk is managed by reviewing daily position reports.

ROCK ISLAND INDEX TRADING, LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued as of December 31, 2001

9. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1) and has elected to use the basic method as permitted by this rule. Under this rule, the Company is required to maintain "net capital" equal to the greater of \$100,000 or 6 and 2/3 % of "aggregate indebtedness", as defined.

At December 31, 2001, the Company had net capital and net capital requirements of \$2,319,286 and \$100,000, respectively.

10. Unasserted Claims and Assessments

On about January 16, 2001, Rock Island Securities, Inc. ("RISI"), an entity related by common ownership, was served with a Complaint filed in the United States District Court for the Northern District of Illinois, Eastern Division. The Complaint names 12 defendants, including RISI, and alleges that the defendants have infringed, or contributed to the infringement of, a patent owned by the plaintiff. The complaint seeks an injunction against any further acts of alleged infringement, as well as unspecified royalty damages, treble damages, costs, and attorneys fees. As the Company acts as a specialist on the CHX for certain index securities that the plaintiff may assert fall within the reach of its patent, the Company may be subject to the same litigation as RISI. RISI's legal counsel has indicated that it cannot yet express an opinion as to the ultimate outcome of the proceeding against RISI.

SUPPLEMENTARY SCHEDULES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART III

BROKER OR DEALER **ROCK ISLAND INDEX TRADING, LLC**

as of **December 31, 2001**

COMPUTATION OF NET CAPITAL

1.	Total ownership (from Statement of Financial Condition- Item 1800)		\$	<u>3,451,158</u>	[3480]
2.	Deduct: Ownership equity not allowable for net capital				[3490]
3.	Total ownership equity qualified for net capital		\$	<u>3,451,158</u>	[3500]
4.	Add:				
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		\$		[3520]
	B. Other (deductions) or allowable subordinated liabilities				[3525]
5.	Total capital and allowable subordinated liabilities		\$	<u>3,451,158</u>	[3530]
6.	Deductions and/or charges:				
	A. Total non-allowable assets from Statement of Financial Condition (Note B and C) (See detail below)	<u>\$ 1,131,872</u>			[3540]
	1. Additional charges for customers' and non-customers' security accounts				[3550]
	2. Additional charges for customers' and non-customers' commodity accounts				[3560]
	B. Aged fail-to-deliver				[3570]
	1. Number of items				[3450]
	C. Aged short security differences- less reserved of				[3460]
	2. Number of items				[3470]
	D. Secured demand note deficiency				[3590]
	E. Commodity futures contract and spot commodities proprietary capital charges				[3600]
	F. Other deductions and/or charges				[3610]
	G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7)and (c)(2)(x)				[3615]
	H. Total deduction and/or charges		\$	<u>(1,131,872)</u>	[3620]
7.	Other additions and/or allowable credits (List)				[3630]
8.	Net Capital before haircuts on securities positions		\$	<u>2,319,286</u>	[3640]
9.	Haircuts on securities (computed, where applicable pursuant to 15c3-1(f)):				
	A. Contractual securities commitments				[3660]
	B. Subordinated securities borrowings				[3670]
	C. Trading and Investment securities				
	1. Bankers' acceptance, certificates of deposit, and commercial paper				[3680]
	2. U.S. and Canadian government obligations				[3690]
	3. State and municipal government obligations				[3700]
	4. Corporate obligations				[3710]
	5. Stocks and warrants				[3720]
	6. Options				[3730]
	7. Arbitrage				[3732]
	8. Other securities				[3734]
	D. Undue concentration				[3650]
	E. Other (List)				[3736]
			\$	<u>0</u>	[3740]
10.	Net Capital		\$	<u>2,319,286</u>	[3750]

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Non-Allowable Assets (Line 6A.):

Loan receivable from affiliate	\$	774,934
Exchange memberships, at cost		171,850
Equipment, net		65,644
Prepaid specialist privileges		98,889
Other assets		<u>20,555</u>
	\$	<u>1,131,872</u>

Note: There are no material differences between the audited computation of net capital and that per the Company's unaudited FOCUS report as filed.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART III

BROKER OR DEALER **ROCK ISLAND INDEX TRADING, LLC**

as of **December 31, 2001**

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A		
11.	Minimum net capital required (6-2/3% of line 19)	\$ <u>13,993</u> [3756]
12.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ <u>100,000</u> [3758]
13.	Net capital requirement (greater of line 11 or 12)	\$ <u>100,000</u> [3760]
14.	Excess net capital (line 10 less 13)	\$ <u>2,219,286</u> [3770]
15.	Excess net capital at 1000% (line 10 less 10% of line 19)	\$ <u>2,298,296</u> [3780]

COMPUTATION OF AGGREGATE INDEBTEDNESS

16.	Total A.I. liabilities from Statement of Financial Condition	\$ <u>209,896</u> [3790]
17.	Add:	
	A. Drafts for immediate credit	<u> </u> [3800]
	B. Market value of securities borrowed for which no equivalent value is paid or credited	<u> </u> [3810]
	C. Other unrecorded amounts (List)	<u> </u> [3820]
18.	Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))	<u> </u> [3838]
19.	Total aggregate indebtedness	\$ <u>209,896</u> [3840]
20.	Percentage of aggregate indebtedness to net capital (line 19 – by line 10)	<u>9</u> [3850]
21.	Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19- by line 10 less item 4880 page 12)	<u>9</u> [3853]

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B		
22.	2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c-3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries debits	<u> </u> [3870]
23.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	<u> </u> [3880]
24.	Net capital requirement (greater of line 22 or 23)	<u> </u> [3760]
25.	Excess net capital (line 10 less 24)	<u> </u> [3910]
26.	Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)	<u> </u> [3851]
27.	Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880, page 11 divided by line 17 page 8)	<u> </u> [3854]
28.	Net capital in excess of: 5% of combined aggregate debit items or \$300,000	<u> </u> [3920]

OTHER RATIOS

Part C		
29.	Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	<u> </u> [3860]
30.	Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) + Net Capital	<u> </u> [3852]

NOTES:

- A. The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
 1. Minimum dollar net capital requirement, or
 2. 6-2/3% of **aggregate indebtedness or 2% of aggregate debits if alternative method is used.**
- B. Do not deduct the value of securities borrowed under subordination agreements of secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of Partnership (contra to item 1740) and partners securities which were included in non-allowable assets.
- C. For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

ROCK ISLAND INDEX TRADING, LLC
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2001

The Company did not handle any customer cash or securities during the year ended December 31, 2001 and does not have any customer accounts.

ROCK ISLAND INDEX TRADING, LLC
COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS
PURSUANT TO RULE 15c3-3
as of December 31, 2001

The Company did not handle any proprietary accounts of introducing brokers during the year ended December 31, 2001 and does not have any PAIB accounts.

ROCK ISLAND INDEX TRADING, LLC
INFORMATION RELATING TO THE POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3
as of December 31, 2001

The Company did not handle any customer cash or securities during the year ended December 31, 2001 and does not have any customer accounts.

RYAN & JURASKA
CERTIFIED PUBLIC ACCOUNTANTS
141 WEST JACKSON BOULEVARD
CHICAGO, ILLINOIS 60604
TEL: (312) 922-0062
FAX: (312) 922-0672

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL**

To the Member of
Rock Island Index Trading, LLC

In planning and performing our audit of the financial statement of Rock Island Index Trading, LLC, (the "Company") as of December 31, 2001, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

Also, as required by rule 17A-5(g)(1) of the Securities Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e).
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.
4. Obtaining and maintaining physical possession or control of a fully paid and excess margin securities of a customer as required by rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures, and of the practices and procedures referred to in the proceeding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principals. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the proceeding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second and third paragraphs of this report are considered by the SEC to be adequate for their purposes in accordance with the Securities Exchange Act of 1934 and the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Chicago Stock Exchange, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934.



Chicago, Illinois
February 19, 2002

ROCK ISLAND INDEX TRADING, LLC

**STATEMENT OF FINANCIAL CONDITION
AND SUPPLEMENTARY SCHEDULES
PURSUANT TO SEC RULE 17a-5(d)**

as of December 31, 2001

AVAILABLE FOR PUBLIC INSPECTION

